Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Index

The reports and statements set out below comprise the annual financial statements presented to the Council:

Index **Page**

Appendixes:

Abbreviations

COID Compensation for Occupational Injuries and Diseases
CRR Capital Replacement Reserve
DBSA Development Bank of South Africa
SA GAAP South African Statements of Generally Accepted Accounting Practice
GRAP Generally Recognised Accounting Practice
GAMAP Generally Accepted Municipal Accounting Practice
IAS International Accounting Standards
IMFO Institute of Municipal Finance Officers
IPSAS International Public Sector Accounting Standards
ME's Municipal Entities
MEC Member of the Executive Council
MFMA Municipal Finance Management Act
MIG Municipal Infrastructure Grant (Previously CMIP)

Hlabisa Local Municipality
Annual Financial Statements for the year ended 30 June 2010
Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP).

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the municipality sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the municipality's cash flow forecast for the year to 30 June 2010 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources
to continue in operational existence for the foreseeable future.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 5 to 43, which have been prepared on the going concern basis, were approved by the Council on 31 August 2010 and were signed on its behalf by:

T.V. Mkhize
Municipal Manager

Report of the Auditor General

AUDITOR - GENERAL

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON HLABISA MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Hlabisa Municipality, which comprise the statement of financial position as at 30 June 2010, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory information, as set out on pages 52 to 89

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.

4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Hlabisa Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended, in accordance with SA Standard of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

8. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

9. As disclosed in note 2 to the financial statements, the corresponding figures for 30 June 2009 have been restated as a result of the conversion from IMFO to SA Standards of GRAP for the year ended 30 June 2010.

Unauthorised expenditure

10. As disclosed in note 32 to the financial statements, unauthorised expenditure totalling R7,554 million was incurred as a result of overspending on the total final approved budget.

Irregular expenditure

11. As disclosed in note 34 to the financial statements, irregular expenditure totalling R658 701 was incurred as a result of payments being made to service providers who where directors or shareholders in the service of the municipality and other state departments.

Going concern

12. Whilst the municipality has prepared financial statements on a going concern basis, there are indicators that its financial sustainability is under threat as the grants and concomitant assets (investments and cash and bank) are insufficient to support the existence of grants and other liabilities, with a shortfall of R5,227 million.

Additional matter

13. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Other information included in the annual report

14. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

15. The supplementary information set out on pages 89 to 93 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

16. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations (MFMA, DoRA and Local Government Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Local Government, Municipal Planning and Performance Regulations (Regulations –GNR/GN) and financial management (internal control).

Predetermined objectives

17. Material findings on the report on predetermined objectives, as set out on pages XX to XX, are reported below:

Non-compliance regulatory and reporting requirements

18. **Submission of budget implementation plan**

The service delivery budget implementation plan was not approved by the mayor within the stipulated 28 days after the approval of the budget, as required in terms of section 53(1)(c)(ii) of the MFMA.

19. **Integrated development plan**

The community was not allowed 21 days to comment on the draft 2009-10 IDP, as required in terms of section 15(3) of the local government, municipal planning and performance management regulations.

20. **No performance assessments**

No performance reviews were conducted for section 57 employees, as required by section 41(1) (c) of the MSA.

21. **Usefulness of reported performance information**

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved strategic plan/corporate plan/annual

performance plan/integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?

- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

22. Inadequate content of integrated development plan

The IDP does not include input indicators, output indicators and outcome indicators in respect of each development priority and objective.

23. Reported information not consistent

- Performance report does not include measures taken to improve performance.
- The annual performance report does not include prior year information.

Compliance with laws and regulations

Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000)

Supply Chain Management Legislative requirements were not adhered to

24. Councillors and staff members did not declare in writing to the municipal manager their financial interest, as required by schedule 1(5) and schedule 2(5) to the MSA.

Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003)

Expenditure was not paid within the parameters set by applicable legislation

25 Management did not take reasonable steps to ensure that all payments are made within 30 days of receiving the relevant invoice, as required by section 65(2)(e) of the MFMA.

INTERNAL CONTROL

26 I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with key laws and regulations (MFMA, DoRA and MSA), but not for the purpose of expressing an opinion on the effectiveness of internal control.

27. The matters reported are limited to the significant deficiencies that gave rise to the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

- **Leadership**

  The leadership has not exercised adequate oversight to ensure compliance with laws, regulations and internal controls.

- **Governance**

  Inadequate monitoring and reviews were performed to ensure that the entity identifies risk relating to the achievement of financial and performance reporting. Internal controls were not developed to prevent, detect and correct non-compliance, unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure.

Auditor - General

Pietermaritzburg

30 November 2010

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Statement of Financial Position

Figures in Rand	Note(s)	2010	2009
Assets			
Current Assets			
Inventories	7	19,217	-
Trade and other receivables	8	27,556	666,980
VAT receivable	9	1,545,855	860,582
Consumer debtors	10	988,868	576,171
Cash and cash equivalents	11	2,500,883	146,374
		5,082,379	**2,250,107**
Non-Current Assets			
Investment property	4	113,900	113,900
Property, plant and equipment	5	59,177,564	36,626,240
Intangible assets	6	19,075	26,608
Investments		2,941,789	5,093,252
Deposits		14,200	14,200
		62,266,528	**41,874,200**
Total Assets		**67,348,907**	**44,124,307**
Liabilities			
Current Liabilities			
Finance lease obligation	12	133,636	104,412
Trade and other payables	14	5,527,801	2,660,469
Unspent grants and receipts	13	5,008,838	5,148,400
Bank overdraft	11	-	925,761
		10,670,275	**8,839,042**
Non-Current Liabilities			
Finance lease obligation	12	217,595	351,230
Total Liabilities		**10,887,870**	**9,190,272**
Net Assets		**56,461,037**	**34,934,035**
Net Assets			
Accumulated Surplus		56,461,037	34,934,035

Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Financial Performance

Figures in Rand	Note(s)	2010	2009
Revenue			
Property rates	16	466,652	102,157
Service charges	17	1,051,973	13,636
Property rates - penalties imposed and collection charges		88,600	102,338
Public contributions and donations		-	25,698
Fines		7,884,499	2,917,384
Licences and permits		301,283	673,954
Government grants & subsidies	18	56,840,367	39,362,797
Rental income		165,893	229,486
Sundry income		1,147,770	186,074
Interest received - investment	23	373,021	1,050,717
Total Revenue		**68,320,058**	**44,664,241**
Expenditure			
Employee related costs	21	(11,899,264)	(9,349,619)
Remuneration of councillors	22	(7,040,981)	(5,999,320)
Depreciation and amortisation	24	(2,040,135)	(1,547,328)
Finance costs	25	(42,701)	(46,459)
Provision for bad debts		(1,099,055)	(74,999)
Repairs and maintenance		(229,634)	(769,484)
Contracted services	27	(9,134)	-
Community and grant expenditure		(9,237,478)	(17,671,102)
General Expenses	20	(15,354,950)	(11,754,629)
Total Expenditure		**(46,953,332)**	**(47,212,940)**
Surplus (deficit) for the year		**21,366,726**	**(2,548,699)**

Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Statement of Changes in Net Assets

Figures in Rand	Accumulated Surplus	Total net assets
Opening balance as previously reported	20,006,532	20,006,532
Adjustments		
GRAP conversion	17,476,202	17,476,202
Balance at 01 July 2008 as restated	**37,482,734**	**37,482,734**
Changes in net assets		
Surplus for the year	(2,548,699)	(2,548,699)
Balance at 01 July 2009	**34,934,034**	**34,934,034**
Changes in net assets		
Surplus for the year	21,366,726	21,366,726
Grap conversion adjustments	160,277	160,277
Balance at 30 June 2010	**56,461,037**	**56,461,037**

Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Cash flow statement

Figures in Rand	Note(s)	2010	2009
Cash flows from operating activities			
Receipts			
Sale of goods and services		9,549,068	10,341,909
Grants		56,700,805	39,517,791
Interest income		373,021	1,050,717
		66,622,894	50,910,417
Payments			
Employee costs		(18,940,245)	(15,348,939)
Community grant expenditure		(9,237,478)	(17,561,107)
Consulting and professional fees		(6,146,066)	(3,649,388)
Other payments to suppliers		(6,599,537)	(9,665,767)
		(40,923,326)	(46,225,201)
Net cash flows from operating activities	28	**25,699,568**	**4,685,216**
Cash flows from investing activities			
Purchase of property, plant and equipment	5	(24,583,931)	(15,800,682)
Purchase of financial assets		-	(5,093,252)
Proceeds from investments		2,151,463	-
Net cash flows from investing activities		**(22,432,468)**	**(20,893,934)**
Cash flows from financing activities			
Finance lease payments		(147,111)	(126,408)
Other adjustments		160,281	17,104,334
Net cash flows from financing activities		**13,170**	**16,977,926**
Net movement in cash and cash equivalents		**3,280,270**	**769,208**
Cash and cash equivalents at the beginning of the year		(779,387)	(1,548,595)
Cash and cash equivalents at the end of the year	11	**2,500,883**	**(779,387)**

Hlabisa Local Municipality
Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. The annual financial statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with section 122(3) of the Municipal Finance Management Act, (Act No.56 of 2003). Accounting policies for material transactions,events or conditions not covered by the above GRAP standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practices (SA GAAP) including any interpretations of such Statements issued by the Accounting Practices Board.

A summary of the significant accounting policies, which have been consistently applied, are disclosed below.

The standards included in the GRAP reporting framework, as determined in Directive 5 as issued by the Accounting Standards Board are summarised as follows:

Standard of GRAP	
GRAP 1	Presentation of financial statements
GRAP 2	Cash flow statements
GRAP 3	Accounting policies, changes in accounting estimates and errors
GRAP 4	The effects of changes in foreign exchange rates
GRAP 5	Borrowing Costs
GRAP 6	Consolidated financial statements and accounting for controlled entities
GRAP 7	Investments in associates
GRAP 8	Interest in Joint Ventures
GRAP 9	Revenue from Exchange Transactions
GRAP 10	Financial Reporting in Hyperinflationary Economies
GRAP 11	Construction Contracts
GRAP 12	Inventories
GRAP 13	Leases
GRAP 14	Events after the reporting date
GRAP 16	Investment Property
GAMAP 17	Property, plant and equipment
GAMAP 19	Provisions, contingent liabilities and contingent asset
GRAP 100	Non current Assets held for Sale and Discontinued Operations
GRAP 101	Agriculture
GRAP 102	Intangible Assets
IFRS 3 (AC 140)	Business Combinations
IFRS 4 (AC 141)	Insurance Contracts
IFRS 6 (AC 143)	Exploration for and Evaluation of Mineral Resources
IFRS 7 (AC 144)	Financial Instruments: Disclosures
IAS 12 (AC 102)	Income Taxes
IAS 19 (AC 116)	Employee Benefits
IAS 32 (AC 125)	Financial Instruments: Presentation
IAS 36 (AC 128)	Impairment of Assets
IAS 39 (AC 133)	Financial Instruments: Recognition and Measurement
IPSAS 20	Related Party Disclosure
IPSAS 21	Impairment of Non Cash Generating Assets
IFRIC 4	Determining whether an Arrangement contains a Lease
IFRIC 14	The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
IGRAP 1	Applying the Probability Test on Initial Recognition of Exchange Revenue

Accounting policies for material transactions, events or conditions not covered by the above GRAP reporting framework have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3 and the hierachy approved in Directive 5, as issued by the Accounting Standard Board.

Hlabisa Local Municipality
Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

These accounting policies are consistent with the previous period, except for the changes set out in the note in the relevant policy.

1.1 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note - Provisions.

1.2 Investment property

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired at no cost or for a nominal cost, its cost is its fair value as at the date of acquisition.

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - park homes	5 years

Transitional provision

The municipality changed its accounting policy for investment property in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure investment property for reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Investment property. Investment property has accordingly been recognised at provisional amounts, as disclosed in 4. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires and investment property is recognised and measured in accordance with the requirements of the Standard of GRAP on Investment property, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Investment property implies that any associated presentation and disclosure requirements need not be complied with for investment property not measured in accordance with the requirements of the Standard of GRAP on Investment property.

1.3 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the

Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.3 Property, plant and equipment (continued)

production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired at no cost, or for a nominal cost, its cost is its fair value as at date of acquisition.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	
• Office Buildings	30
Infrastructure	
• Taxi Ranks	20
• Bus Terminals and Shelters	20
• Street Lights	25
Community	
• Library	30
• Recreational Centres	30
• Sports and related grounds	30
• Outdoor sports facilities	20
• Community Halls	30
• Public Conveniences	30
Other property, plant and equipment	
• Bins and Containers	5 - 10
• Buildings	30
• Computer Equipment	5
• Computer Software (part of computer)	5
• Emergency equipment	5 - 15
• Furniture and Fittings	3 - 10
• Motor Vehciles	5
• Office Equipment	5
• Other Assets	2-30

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Transitional provision

The municipality changed its accounting policy for property, plant and equipment in 2010. The change in accounting policy is made in accordance with its transitional provision as per Directive 4 of the GRAP Reporting Framework.

According to the transitional provision, the municipality is not required to measure property, plant and equipment for

Hlabisa Local Municipality
Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.3 Property, plant and equipment (continued)

reporting periods beginning on or after a date within three years following the date of initial adoption of the Standard of GRAP on Property, plant and equipment. Property, plant and equipment has accordingly been recognised at provisional amounts, as disclosed in 5. The transitional provision expires on 30 June 2012.

Until such time as the measurement period expires and property, plant and equipment is recognised and measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment, the municipality need not comply with the Standards of GRAP on:

- Presentation of Financial Statements (GRAP 1),
- The Effects of Changes in Foreign Exchange Transactions (GRAP 4),
- Leases (GRAP 13),
- Segment Reporting (GRAP 18),
- Non-current Assets Held for Sale and Discontinued Operations (GRAP 100)

The exemption from applying the measurement requirements of the Standard of GRAP on Property, plant and equipment implies that any associated presentation and disclosure requirements need not be complied with for property, plant and equipment not measured in accordance with the requirements of the Standard of GRAP on Property, plant and equipment.

1.4 Intangible assets

Intangible assets comprise computer software and anti-virus software and are initially recognised at cost.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Amortisation is provided for intangible assets on a straight line basis over the usefule life. The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.5 Financial instruments

Trade and other receivables

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost. Amortised cost refers to the intial carrying amount, plus interest, less repayments and impairments. An estimate is made for doubtful receivables based on a review of all outstanding amounts at year-end. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. An impairment of trade receivables is accounted for by reducing the carrying amopunt of trade receivable throught the use of an allowance account, and the amount of the loss is recognised in the Statement of Financial Performance within operating expenditure. When a trade receivable is uncollectible, it is written-off. Subsequent recoveries of amounts previously written off are credited against operating expenses in the Statement of Financial Performance.

Trade and other payables

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, which is the initial carrying amount less repayments plus interest.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

Hlabisa Local Municipality
Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.5 Financial instruments (continued)

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost.

1.6 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

1.7 Inventories

Inventories are initially measured at cost except where inventories are acquired at no cost, or for nominal consideration, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

1.8 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

Hlabisa Local Municipality
Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.8 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

After their initial recognition contingent liabilities recognised in business combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised.

1.9 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.10 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or

Hlabisa Local Municipality

Annual Financial Statements for the year ended 30 June 2010

Accounting Policies

1.10 Revenue from non-exchange transactions (continued)

additional rates revenue is recognised.

Fines

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. Revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.11 Investment income

Interest and rentals are recognised on a time proportion basis.

1.12 Borrowing costs

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.13 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.14 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

Hlabisa Local Municipality

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Accounting Policies

1.15 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.16 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

1.17 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.18 Presentation of currency

These annual financial statements are presented in South African Rand.

1.19 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP

Hlabisa Local Municipality
Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

2. Changes in accounting policy

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice. This represents a change in accounting fromwork from IMFO and to Generally Recognised Accounting Practice.

The aggregate effect of the changes in accounting policy on the annual financial statements for the year ended 30 June 2009 are as follows:

Statement of financial position

	2010	2009
Property, plant and equipment (cost)		
Previously stated	-	41,915,800
Adjustment	-	544,337
	-	**42,460,137**
Investment Property (cost)		
Previously stated	-	-
Adjustment	-	198,150
	-	**198,150**
Intangible Assets		
Previously stated	-	-
Adjustment	-	37,665
	-	**37,665**
Property Plant and equipment (Accumulated Depreciation)		
Previously stated	-	-
Adjustment	-	(4,094,362)
	-	**(4,094,362)**
Investment Property (Accumulated Depreciation)		
Previously stated	-	-
Adjustment	-	(84,250)
	-	**(84,250)**
Intangible Assets (Accumulated Armotisation)		
Previously stated	-	-
Adjustment	-	4,887
	-	**4,887**
Loans redeemed and capital receipts		
Previously stated	-	(41,915,800)
Adjustment	-	41,915,800
	-	-
Trade and Other Receivables		
Previously stated	-	1,670,154
VAT Receivable disclosed seperately	-	(860,582)
Consumer Debtors disclosed seperately	-	(576,171)
Adjustment to disclose credit balances in trade and other payables	-	433,579
	-	**666,980**

Hlabisa Local Municipality
Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009
2. Changes in accounting policy (continued)		
Trade and Other Payables		
Previously stated	-	1,357,287
Accrued leave pay previously disclosed as a provision	-	630,106
Accrued bonus not previously recognised	-	226,972
Consumer deposits received previously disclosed as non-current liabilities	-	12,509
Credit balances previously disclosed as trade and other receivables	-	433,595
	-	**2,660,469**
Capital Development Fund		
Previously stated	-	(1,599,155)
Adjustment	-	1,599,155
	-	-
Reserves and Trust funds		
Previously stated	-	(20,139,748)
Adjustment	-	20,139,748
	-	-
Unspent grants and receipts		
Previously stated	-	-
Adjustment	-	(9,873,217)
	-	**(9,873,217)**
Finance lease liabilities		
Previously stated	-	-
Adjustment	-	(535,591)
	-	**(535,591)**
Accumulated surplus		
Previously stated- balance	-	(9,365,117)
- 08/09 Appropriations	-	(2,908,475)
Grap implementation adjustments	-	17,476,202
	-	**5,202,610**
Statement of financial performance		
Finance costs		
Adjustment	-	42,701
Depreciation and armotisation		
Adjustment	-	1,547,328
Contributions to fixed assets		
Previously stated	-	756,444
Adjustment	-	(756,444)
	-	-
Contribution to funds		
Previously stated	-	14,052,039
Adjustment	-	(14,052,039)
	-	-

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Annual Financial Statements for the year ended 30 June 2010

Notes to the Annual Financial Statements

Figures in Rand	2010	2009

2. Changes in accounting policy (continued)

Government grants and subsidies

Previously stated	-	40,313,797
Adjustment	-	(951,000)
	-	**39,362,797**